

CITY OF SHELBY

INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT  
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD  
JULY 1, 2014 THROUGH JUNE 30, 2015

## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	4-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
City Council Minutes	B 8
Certified Budget	C 9
Tax Increment Financing	D 9
Separately Maintained Records	E 10
Financial Condition	F 10
Fund Balance	G 10
Bank Reconciliation	H 10

## City of Shelby

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Kroll	Mayor	January 2016
Shawn Osbahr	Council Member	January 2016
Shelia Rihner	Council Member	January 2016
Bob Richmond-Mayor Pro Tem	Council Member	January 2016
Karen Schlueter	Council Member	January 2018
Pat Honeywell	Council Member	January 2018
Christie Martin	City Clerk	Indefinite
Clint Fichter	Attorney	Indefinite
Patricia Morris	Treasurer	Indefinite

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 18, 2015

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

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**Licensed In:**

Iowa  
Missouri

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

I have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa legislature to provide oversight of certain Iowa cities. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Shelby for the period July 1, 2014 through June 30, 2015. The City of Shelby's management. Which agreed to the performance of the procedures performed. Is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
7. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. I reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. I reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. I reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa
11. I reviewed and tested selected receipts for accurate accounting and consistency with the COA.
12. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion

on the financial statements or a part thereof. Had I performed additional procedures, or had I performed an audit of the City of Shelby, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shelby and other parties to whom the City of Shelby may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Shelby during the course of my agreed-upon procedures. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*M. J. Huffelst Associates, CPA, P.C.*

## DETAILED RECOMMENDATIONS

## CITY OF SHELBY

### DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.
- (8) Computer system – Performing all general accounting functions and controlling all data input and output.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) City Council Minutes – Chapter 380.7 of the Code of Iowa requires that the minutes be properly signed by the Mayor and City Clerk. There was five instances where the minutes were not signed by the Mayor or the City Clerk. Also, Chapter 380.13(6) requires that all lists of claims contain a reason for the claim.

Recommendation – The city should comply with Chapter 380.7 of the Code of Iowa and properly sign all Council minutes as required. The City should also comply with Chapter 380.13(6) and list a reason for the claims being approved.



CITY OF SHELBY

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2015

- (C) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the Nature Trail, Fire Fundraising, Youth Council, Debt Service and Water Sinking functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The Clerk should review the Budget Report and reconcile it to the final certified budget.

- (D) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has tax increment financing (TIF) debt of \$520,826 outstanding at June 30, 2015. The City had cash on hand of \$75,305 at June 30, 2015 in the Special Revenue, Urban Renewal Tax Increment Fund to pay for the TIF debt outstanding. Therefore, the City had a \$445,521 deficit in cash on hand needed to pay the TIF debt outstanding. The Urban Renewal Report due December 1, 2014 was filed and approved by the City Council in a timely manner.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

CITY OF SHELBY

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2015

- (E) Separately Maintained Records – The City of Shelby Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records for the first six months. The Shelby Historical Society maintains a separate bank account that is not included in the City’s records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis. In January 2015, the City took over maintenance of this account and has been part of the Clerk’s balances. The Historical Society’s account has no activity in it, but was not included in the City’s records. This account needs to be added to the City’s funds.

- (F) Financial Condition – The Debt Service, Capital Projects and Water Fund had deficit balances at June 30, 2015.

Recommendation – The City should investigate alternatives to eliminate the deficit balances in order to return these funds to a sound financial condition.

- (G) Fund Balance – The general fund balance on the City’s trial balance is out of balance by \$3,620, which is payroll tax liabilities.

Recommendation – The City should investigate this issue and form a plan of action to correct it.

- (H) Bank Reconciliations – There were old outstanding check dated back to 2013 still on the bank reconciliation report. Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, for more than two years old, to the Office of the Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amount over two years should be remitted to the Office of the Treasurer of State as required.